
EXECUTIVE SUMMARY

2004 marked a dramatic turning point for civil society in several countries that are the subject of the Index. Among the year's most significant developments were the increased public regard for the NGO sector following its pivotal role in the 2003 Rose Revolution in Georgia, and the leadership shown by the sector in Ukraine in the events preceding the 2004 Orange Revolution. Both events are striking examples of the power of civil society to effect social change, and hold promise for significant advances in NGO sustainability in those countries.

An interesting question will be how the new governments in Georgia and Ukraine will respond to civil society in the wake of the reforms. Early signs in Georgia suggest potential for greater influence by NGOs as their allies assume governmental positions and further improvements in NGO public image. In Ukraine, advances in NGO advocacy demonstrated by the sector's role in the revolution built on promising improvements in several dimensions of NGO sustainability – whether these advances can form the basis for an even stronger role for the sector is a challenge for the coming years.

The Southern Tier of Central and Eastern Europe also made gains this year, albeit in a less dramatic fashion. Most countries continued to make modest progress towards greater sustainability, with improved laws governing the NGO sector coming into effect, continued growth in organizational capacity, and a number of examples of effective NGOs advocacy campaigns reported this year. The financial sustainability dimension continued to be a weak spot for these countries, however, with most reporting difficulties in building local sources of support for NGOs and heavy reliance by the sector on foreign funding.

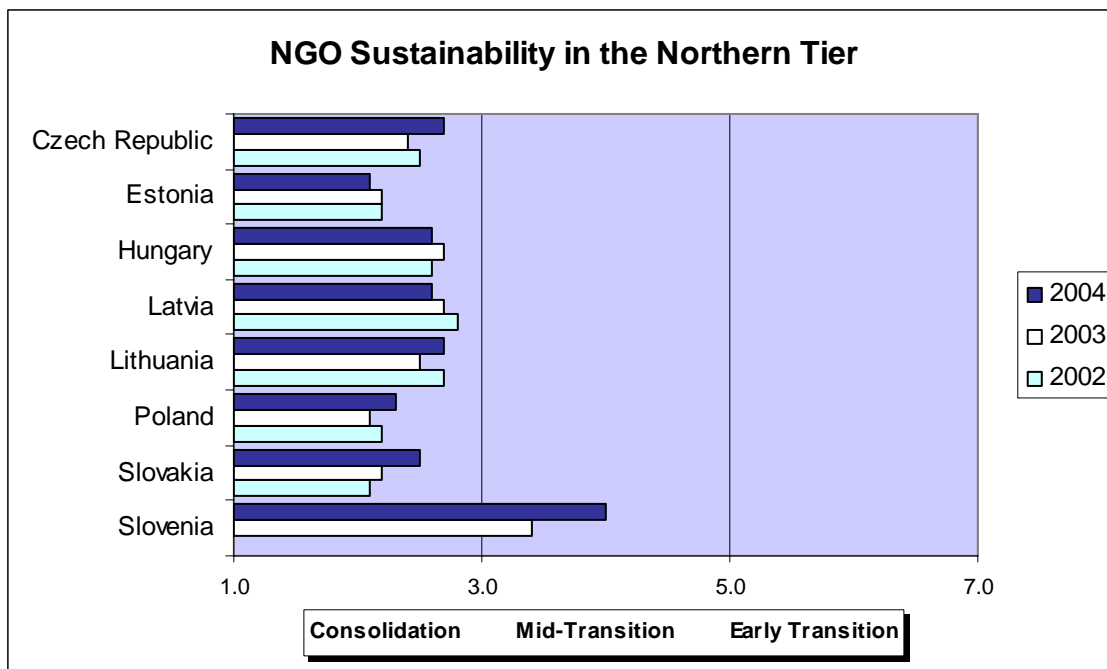
Elsewhere, progress has been uneven. In the Northern Tier of CEE, several countries continued to consolidate gains in NGO sustainability, but for most, scores reflect a sense of pessimism as slower progress fails to meet the expectations of NGO leaders. In Russia, despite consolidation of government authority that has led Freedom House to label the country “not free,” this year's report indicates that NGO sustainability has improved. This development is attributed in part to the increased focus on civil society under President Putin and the positive recognition that some of his reforms have brought to at least a few NGOs, but perhaps more significantly, to the pragmatic approach taken by NGOs in the regions to working with municipal and local governments, which have resulted generally in more open channels of communication with them.

In Moldova and Armenia overall sustainability scores did not change, while Azerbaijan saw a modest increase. Belarus again ranks among the two countries scoring lowest on the index, as continued government hostility to the NGO sector thwarted its development. In the Central Asia Republics, results were mixed. Turkmenistan joined Belarus as one of the lowest scoring countries, as NGOs continued to struggle to survive under a repressive government, although there were some signs of progress, leading to a slightly

improved score. In Uzbekistan, sustainability as measured by the Index declined as government restrictions on the sector increased. Tajikistan had a slight improvement in score, while Kazakhstan and Kyrgyzstan showed modest improvement in some dimensions, which was offset by a continued lack of progress in the areas of financial viability, advocacy, and service provision.

NORTHERN TIER

Progress towards greater sustainability slowed in the Northern Tier countries during the past year. There are several possible explanations for this. First, all but one of the countries in this region – Slovenia – had already entered the “consolidation” phase of NGO sector development in most dimensions of the Index (see below “Ratings: A Closer Look”) demonstrating the maturity of their NGO sectors. As a result, there are fewer developments capable of producing dramatic gains in scores. Moreover, reports this year suggest that in a number of these countries, there is a sense of frustration among the implementing partners when progress does not meet the high expectations that the NGO sectors have come to set for themselves, resulting in decreased scores in some dimensions.



All eight of the Northern Tier countries joined the European Union on May 1, 2004. It is still early to tell, however, what the effects of EU membership will be on NGO sustainability in these countries in the long term. Immediate consequences have been the loss of certain VAT exemptions as countries conform their tax regimes to EU standards, and termination of pre-accession funding vehicles. Several positive developments were reported as well. NGOs in several of the countries have begun efforts to access EU structural funds. And in Slovenia, the EU accession process gave rise to two documents reflecting greater cooperation between the NGO sector and the government: the

Government Strategy on the NGO Sector, and an agreement currently being negotiated between the NGO sector and the government to increase dialogue, advance legal reforms, and increase financial viability.

One encouraging trend reported this year is that in several countries, laws intended to improve the financial sustainability of NGO sectors became effective. In Lithuania, legal reforms ensure that all organizations may engage in economic activities to sustain themselves. In addition, NGOs began receiving funding from the new “2% law,” which allows taxpayers to designate 2% of their income tax liabilities to NGOs, schools, and hospitals. Under Slovakia’s 2% rule, private and legal entities assigned more than 816 million Slovak Crowns (\$27.2 million) to civil society organizations last year. The Hungarian National Civil Fund began operations, providing a new government source of institutional funding to service providing NGOs, and showing the value the government attributes to NGO service providers. The Slovenian agreements between the NGO sector and the government are expected to contribute to greater longer term financial sustainability. And in Latvia, the new Laws on Association and Foundations and on Public Benefit Status create a new and progressive legal framework that provides the foundation for building a more sustainable NGO sector.

Nonetheless, only three countries in the Northern Tier – Estonia, Latvia, and Hungary – showed improvements in their overall sustainability scores this year, and even these improvements were modest. In Estonia, improvements in the infrastructure dimension, attributed to well-developed partnerships by the sector with government and business, and strengthened umbrella organizations, led to an improved score. In Hungary, developments associated with the start up of the National Civil Fund produced a small overall score increase. The implementation of the National Civil Fund was not without controversy; however, as 60% of applications to the fund were rejected in the first instance for failure to comply with requirements, and questions arose regarding whether appropriate standards for transparency, professionalism or effectiveness of recipient NGOs were in place.

In a third country, Latvia, there was a modest increase in the overall sustainability score. Improvements in the Legal Environment dimension attributable to the new legal framework and the financial sustainability dimension resulting from improved domestic funding sources (community foundations and an internet based service to assist individuals in identifying NGO donees) were key factors in the score increase.

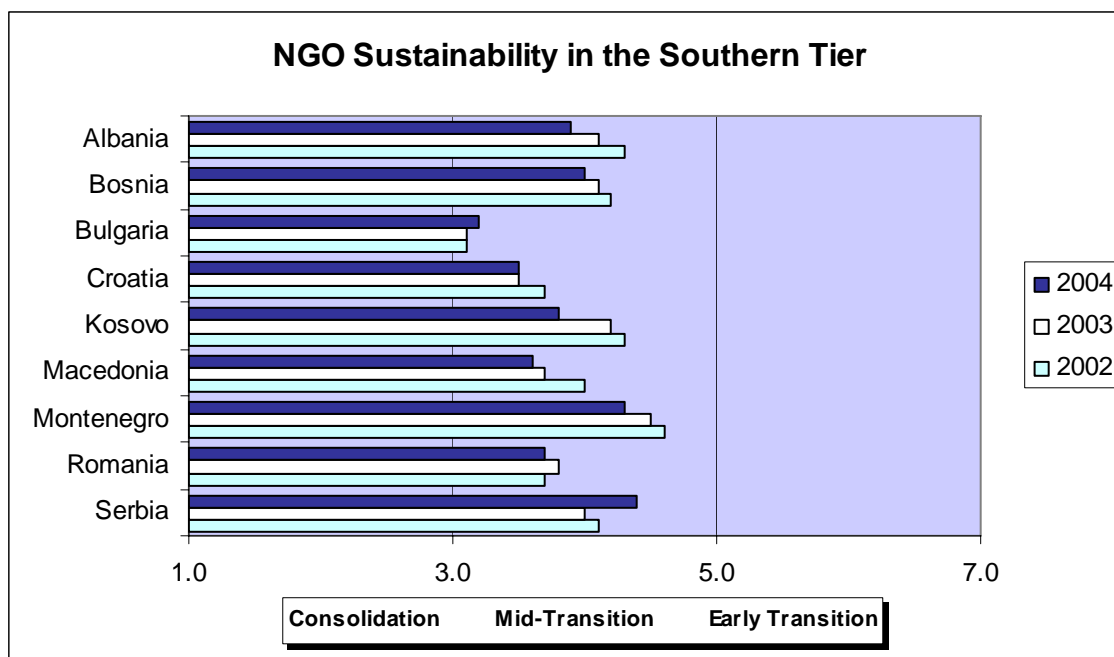
In the Czech Republic, Lithuania, Poland, Slovakia, and Slovenia, overall sustainability as measured by the index decreased. Reasons varied. In the Czech Republic, the downward trend, not only in this year but in the past, appears to be spurred by a perceived need to recalibrate scoring of past years to bring it more in line with Czech realities, as well as frustration with the slower pace of improvements in recent years. Nonetheless, the NGO sector in the Czech Republic has shown progress, with financing of the sector almost entirely from domestic sources, including corporate contributions and government financing – a marked contrast from the many countries that report continued dependence on foreign donors. In Lithuania and Slovakia, the downward trend in scoring

similarly represents a readjustment of past scoring that brings that country's scores more in line with those of other countries in the northern tier.

In Poland, the Legal Environment and Service provision dimensions pulled down the overall score, reflecting disappointment with the implementation of the new Public Benefit Activities and Volunteerism Act, unfavorable changes in the VAT Law, and tendencies on the part of NGOs, particularly with the opening of new EU funding possibilities, to adapt their mission and activities to the availability of funding prospects rather than the needs of constituents or a coherent strategy for advancing their missions. Slovenia has since its inclusion in the index lagged behind the other countries in this tier. Its scores dropped in six out of seven dimensions, in some cases as a result of the availability of new data reflecting on the state of the sector.

SOUTHERN TIER

The countries of the Southern Tier for the most part continued to advance steadily towards more sustainable NGO sectors. All of the countries but two either retained or showed modest gains in their overall sustainability scores.



The Advocacy dimension was a bright spot for a number of countries in this group, including Albania, Kosovo, Bosnia, Macedonia, Montenegro, and Romania. Each of these countries saw improvement in this dimension, the result of visible, successful NGO advocacy campaigns -- an important factor in the increases in their overall sustainability:

- In Albania, NGOs participated in several campaigns targeting government corruption, some of which succeeded in reversing government policies on, e.g., utility rate hikes.

- In Kosovo, successful issue-based coalitions included the Reforma 2004 campaign, which joined groups from across the sector and educated the public in support of Electoral Law reform; and the GOTV campaign that increased voter turnout in the 2004 elections.
- In Macedonia, NGOs have led a number of successful policy advocacy initiatives, and advanced network and coalition building initiatives, including the Citizen Platform, an NGO coalition that is developing a strategy to advance the sector and address sector-wide obstacles.
- In Montenegro, NGO advocacy campaigns focusing on political reforms, women's rights, and minority rights yielded results, while NGOs successfully built strong coalitions around consumer protection and environmental issues.
- In Romania, NGO lobbying played a significant role in Parliament's adoption of a "1% Law"; other campaigns focused on a wide range of issues in areas such as corruption and lack of transparency, parliamentary ethics, electoral law, equal opportunity, environmental issues, and child protection and social services.

In all countries in this tier, financial sustainability remains a challenge. The NGO sectors remain dependent on foreign donors, and NGOs are for the most part not viable without foreign donor support. If the NGO sectors in these countries are to continue progress towards greater sustainability, they will need to find ways to diversify funding, and particularly to build local sources of support. This will continue to be difficult under the economic conditions prevailing in some of the countries, as it is unlikely that, for example, local philanthropy and income generation will develop significantly without economic improvements. Indeed, the Bulgaria report reflects concerns about the NGO sector's financial viability, stemming primarily from the withdrawal of foreign funding at a time when Bulgarian NGOs have not yet diversified their funding bases.

This year's reports reflect a number of initiatives to address the challenges of improving financial sustainability. In Croatia, the National Foundation for Civil Society Development began operations, providing educational opportunities for civil society, as well as grants that support grassroots activities and programs. In Bulgaria, new legal provisions permitting local governments to contract out services to NGOs came into effect, and hold out the promise of greater opportunities for municipal government funding for NGO service provision in coming years. In Romania, new fiscal code provisions aimed at strengthening NGO financial stability include a "1%" provision, and an increase in the amount of the tax deduction for businesses that contribute to charity.

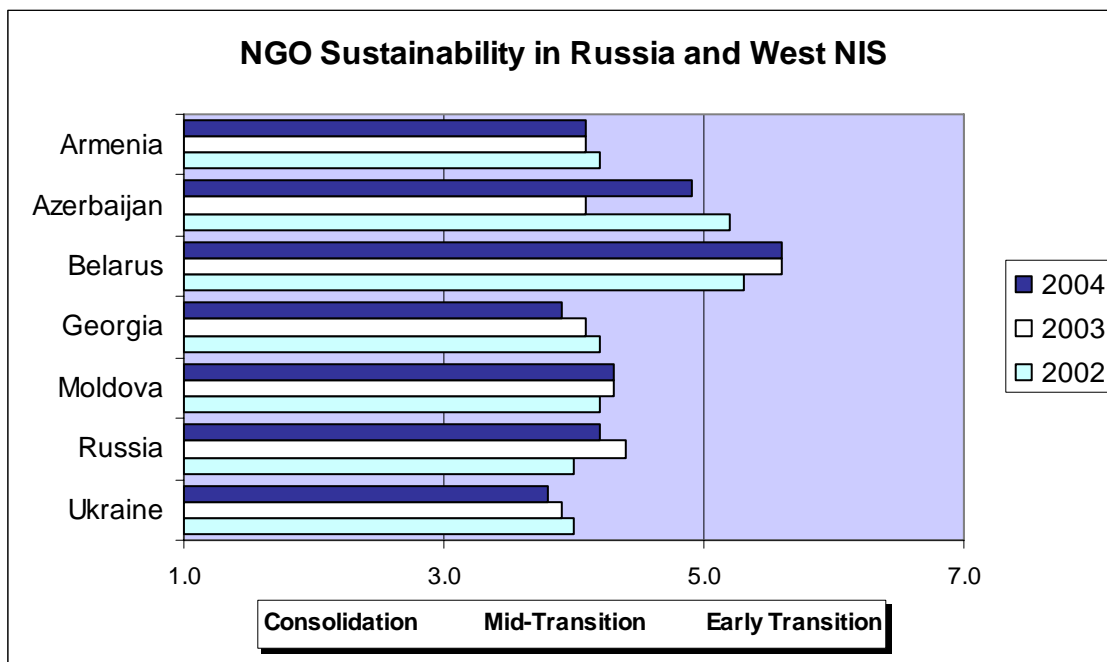
In two countries, issues surrounding NGO sector relations with government affected scores. In Serbia, the environment in which the sector operates has deteriorated since the 2003 assassination of Prime Minister Zoran Djindjic, and worsening relations with the new government have pushed most dimension scores down. In Croatia, the overall sustainability score remained the same. Any gains were offset by reverses in the legal

environment and advocacy dimensions as a result of new obstacles created by a government that is less supportive of the NGO sector than the previous one.

EURASIA

RUSSIA AND WEST NIS

Profound political changes brought about in part by the actions of the NGO sector in Georgia and Ukraine had significant ramifications for the sector. In Georgia, NGOs played a major role in blowing the whistle on election fraud, helping to bring about the defeat of the Shevarnadze regime and the election President Michael Saakashvili in 2003. This led to positive developments for the sector in the past year, as NGO leaders now filling posts in the new government are thought to be more likely to consider legislation benefiting the sector and to turn to the NGO sector for expertise and assistance, and NGOs received substantial media exposure and improved their image with the public. In Ukraine, the sector's participation in events leading up to the electoral victory of Viktor Yushchenko was a sign of its growing strength. As this year's report makes clear, even before the Orange Revolution, NGOs in Ukraine had made advances, capitalizing on two new, progressive laws that simplify registration procedures and specify better internal management practices, as well as securing funding from the business community and government, and engaging the media.



The report from Russia raises another interesting development from the past year. News reports during the year focused on the consolidation of executive power under President Putin. Freedom House, in its Index of Freedom Around the World, changed its rating for

Russia to “not free” as a result of increased state pressures on the media, opposition political parties, and independent business leaders. Indeed, even this year’s report suggests that “the Russian Government continued to implement policies that created a ‘managed’ civil society that paralleled Russia’s ‘managed’ democracy.” Nonetheless, the report for Russia asserts that the NGO sector made gains. The reports cites, among other improvements, advances in organizational capacity, greater financial sustainability due to increases in corporate philanthropy and in financing of NGOs by municipal and regional governments, improved access to policy makers and advocacy at the municipal and regional levels, and better infrastructure, given the role of regional resource centers as catalysts for NGO activism and stronger NGO networks.

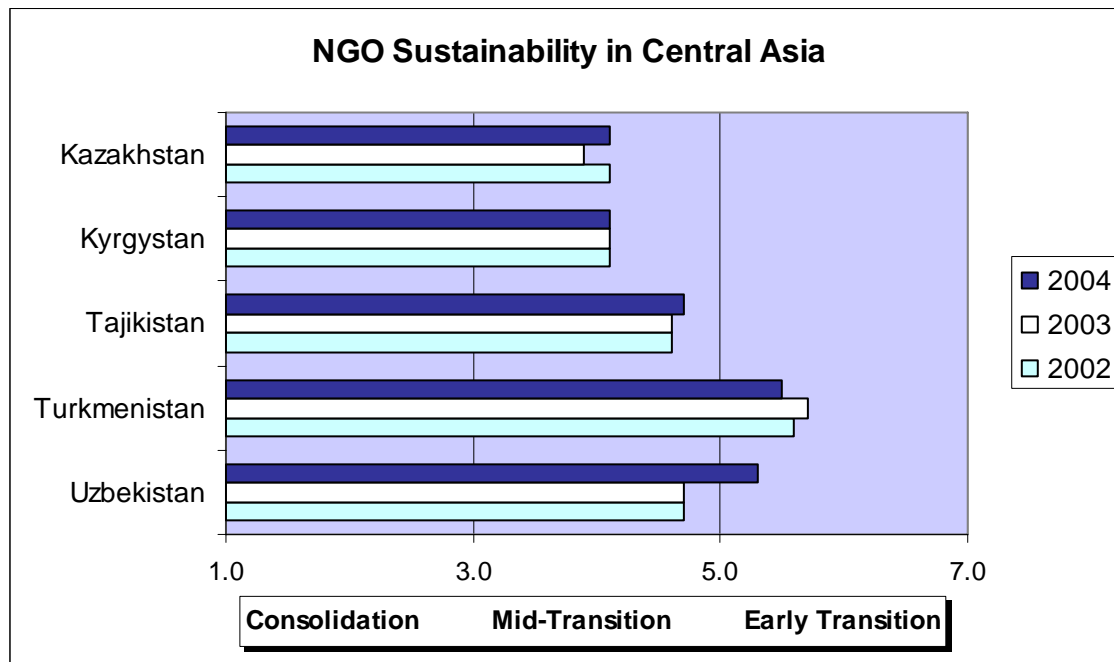
While Azerbaijan had a modest increase in its overall sustainability score, Armenia and Moldova retained their scores from last year. The legal environment dimension has presented challenges in each of the three countries in the past year. In Moldova, the legal environment has deteriorated due to government attempts to control financial and technical assistance provided by foreign donors to NGOs; the limited impact of the 2002 Law on Philanthropy and Sponsorship; and increasing governmental harassment of the of the NGO sector. In Armenia, government officials have resisted fiercely law reforms that would permit NGOs to generate income from economic activities, and NGOs have been subjected to visits by government officials demanding social insurance payments for their volunteers. In Azerbaijan, new rules create hurdles for NGOs receiving grants, implementation of registration rules continues to thwart NGOs from registering, and inconsistent application of a ban on NGO participation in political activities has chilled NGO advocacy activities.

But each of the three countries has shown improvements as well. All cited strengthened NGO infrastructure, due in part to an increase in the number of training and resource centers as well as in the services these centers provide. Armenian NGOs have improved their ability to tap funding from cash and in-kind donations from a number of sources, including the Diaspora, and have seen growing improvement in their cooperation with government. Moldovan NGOs have developed cooperative efforts with both central and local government bodies and have had some success in opposing legislative proposals.

The NGO sector in Belarus continued to struggle under the repressive regime of President Lukashenko. Its overall sustainability rating remains among the lowest of all countries in CEE and Eurasia. The Belarusian legal environment continues to restrict the development of the sector, with new government controls on foreign aid and technical assistance that have made the legal environment even more harsh, limited advocacy, deprived NGOs of support and training programs, and further prevented access to the national media. In spite of these obstacles, NGOs have made modest progress in improving their provision of services, and, on the organizational capacity front, in increasing their understanding of internal governance and strategic planning.

CENTRAL ASIA REPUBLICS

Sustainability scores were mixed in the Central Asia Republics, with Kazakhstan, Kyrgyzstan, and Uzbekistan showing declines in overall sustainability, while Tajikistan and Turkmenistan had small increases.



Turkmenistan remained with Belarus at the bottom of the index, with the government continuing to control most NGO activities. Few NGOs can register as a result of restrictive laws, and the receipt of grant and other funds by NGOs is also controlled to the point where their survival is difficult. Nonetheless, there were signs of progress, as reflected in a small increase in the sustainability score, in part because of improvements in the legal environment due to improvements in registration rules, and because of infrastructure improvements, including Civil Society Support Centers. Uzbekistan experienced a serious drop in both the overall score and the scores for most dimensions as a result of new legal impediments imposed upon the sector as well as deterioration of the economy and the public's frustration with the slow pace of democratic reforms.

In Tajikistan, scores improved, in large part due to better NGO organizational capacity and infrastructure. The report notes greater maturity among NGOs, as well as stronger ability to monitor current social issues, design and implement programs, and maintain a dialogue with donors, constituents, and local authorities, and greater access to information and communications, widening access to training programs and donor information.

In Kyrgyzstan, improvements included a legal environment that is more supportive of NGO activities, a lack of government interference in voter education campaigns and

election monitoring by NGOs and growing NGO experience in conducting advocacy campaigns and building partnerships. These developments presaged the significant political changes in March 2005.

Kazakhstan's NGO sector saw some improvements in the legal environment (easier registration procedures) and in advocacy skills, as NGOs were successful in lobbying against legislation. These developments were offset, however, by new tax provisions that may compromise the NGO sector's financial stability, as well as withdrawal of some foreign funding, and government attempts to limit some NGO advocacy efforts.

CONCLUSION

The year's events demonstrate the growing strength of civil society, and the achievements of which a vigorous civil society is capable. This year's Index further points to progress in a number of countries as NGOs demonstrate greater ability in advocacy and organizational capacity, and legal and infrastructure improvements created a more enabling environment for NGOs. In a number of countries, however, there is still substantial work to be done, particularly those in which NGOs labor under repressive governments. And in all countries, NGOs must rise to meet the continuing challenge of strengthening the sector's financial viability.